



THE VIRGINIA STATE BANKER

Regulatory News for Virginia State-chartered Banks
State Corporation Commission - Bureau of Financial Institutions

Commissioner E.J. Face, Jr.

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The Virginia State Banker is published quarterly by the Virginia Bureau of Financial Institutions to provide useful information to the banks and savings institutions that it regulates, and any of their related interests. Reader comments and suggestions are welcome and should be addressed to:

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FINANCIAL MODERNIZATION AND STATE BANKING

On November 12, 1999, President Clinton signed into law the Gramm-Leach-Bliley Financial Modernization Act of 1999 (P.L. 106-102), updating U.S. financial services laws and breaking down the barriers between commercial banks, securities firms, and insurance companies. The enactment of the Gramm-Leach-Bliley Act, after decades of effort, marks an exciting new beginning for the nation's banking industry. It is also the latest chapter in a long history of innovation through the dual banking system.

Since the earliest days of U.S. banking, states have led the way to new products and services for bank customers. It is not an exaggeration to say that the advances in Gramm-Leach-Bliley are possible only because so many states have acted, over the past several years, including Virginia, to expand the powers of state-chartered banks. Bank sales of securities, insurance, and real estate all originated at the state level, and

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Y2K AT THE SCC IS NON-EVENT

The Commission's Y2K rollover was so smooth and quiet that Judge Hulihan Moore's New Year's Eve visit was the most exciting moment of the evening.

Information Technology Director **Gerry Pacyna** said, "Even though we were confident, there was still some apprehension as midnight approached. Judge Moore's visit helped take the edge off and made a perfect night even more enjoyable."



Approximately 80 SCC staffers were at work at some point during the New Year's weekend making sure the flip of the calendar to 2000 did not threaten the building, the computers, or the hundreds of computer-based programs that allow the Commission to carry out its regulatory responsibilities.

Y2K team leader **Constance Scott** said, "Nothing happened. It went as smooth as silk." She is not taking the credit, however. The real heroes are the SCC employees who

(Continued on page 2)

EXAMINERS RECEIVE TRAINING DURING Y2K BREAK



During the week immediately following the Y2K rollover period, the Bureau's Bank and Thrift Supervision Section held a week of training. Each Bureau Section supervisor gave a presentation to examiners to inform them of what other areas of the Bureau do.

Compass Bank's Cindy Russo spent the better part of a day discussing the evaluation of interest rate risk, various economic value-of-equity models, and the pros and cons of various funding strategies. Charles Gruehn, an examiner with the Atlanta Federal Reserve Bank, gave an informative presentation on healthcare lending, and John Gorman from The Conference of State Bank Supervisors did an overview of the new financial modernization bill.

A significant amount of time was spent on refresher training for the GENESYS examination software. There was also a discussion of ways to make the examination process more efficient. The goal for the training is for regulated institutions to see ever improving examiner teams and reports.

NEW STATE BANKS

The State Corporation Commission approved Citizens Community Bank, South Hill (total capital \$7.6 million) on October 12, 1999. The bank's Chief Executive Officer is James H. Wells.

In addition, the Commission recently approved the conversion of Valley Bank, N.A. to a state chartered bank, which will be called Valley Bank. The Bank's Chief Executive Officer is Ellis L. Gutshall.

There is one new bank application pending: Hanover Bank. The bank will be located in Mechanicsville, Virginia, and it will be a subsidiary of Eastern Virginia Bankshares, Inc.

ONLINE BANK B2B NOW AVAILABLE

Online business-to-business trading on the Internet is now available to banks. BankAuction.com, a division of ConstantAuction.com touts itself as an "auction site dedicated to bringing banks and bank equipment suppliers together." This site, which is currently free to buyers and sellers, places items in ten subcategories:

- ☐ Micrographics Equipment (9)
- ☐ Proof Encoding/Encoding Equipment (5)
- ☐ Item Processing Equipment (0)
- ☐ Printers (Banking) (9)
- ☐ ATM Equipment (0)
- ☐ Teller Systems (1)
- ☐ Security Equipment (0)
- ☐ Bank Modules (2)
- ☐ Miscellaneous (Banking) (29), and
- ☐ Reader Printer (2)

(Numbers in parentheses indicate the number of items available during a recent visit to the site. Auction periods vary.)

The foregoing is not a Bureau of Financial Institutions endorsement of the site described. As always, a site's policies should be reviewed, particularly the User Agreement and Privacy Policy.

Y2K NON-EVENT AT THE SCC

(continued from page 1)

put in the required time and effort to ensure such a smooth transition. "We all had to pull together," according to Ms. Scott.

Mr. Pacyna said, "The testing of SCC systems went like clockwork." In fact, things were going so well, ITD was well ahead of schedule, and several people were able to go home much earlier than expected.

Others spent the night at the Commission, sleeping on office sofas, lawn chairs, or sleeping bags cushioned by an air mattress.

Mr. Pacyna says the SCC may see some things fall out over the next several weeks that may be Y2K-related. "These will be on the fringes. Most likely they won't hurt anything, and will be taken care of on the spot."

The SCC spent three years and \$6 million dollars to become Y2K ready, much of it spent on computer technology the SCC needed to update anyway.

BUREAU PROFILE

- **Name:** John R. Turner
- **Current Position and Years of Service:**
Principal Financial Analyst; 27 years
- **Main Responsibilities:**
Supervising Bank Examinations
- **Education and Professional Designations:**
University of Richmond - Business Degree 1972
Southwestern Graduate School
of Banking - SMU 1984
- **Family:** Wife--Cheryl and Dog--Hooch
- **Personal Interests:** Snow Skiing, Yardwork, and Reading



The job of examining Banks has changed significantly according to John Turner, who started as a junior examiner with the Bureau in 1973 and is one of the Bureau's most experienced examiners. John said he recalls the "olden days" when examiners used 10-key adding machines and Hermes typewriters instead of laptop computers. He also recalls when, at the end of the work day, examiners would have to wrap all of the files and bank documents they were working on with adding machine tape and place the Bureau's "seal" (which was really a sticker) on the items for safekeeping until they could return the next day. To this day, John still finds some of the old Bureau seals stuck to the file cabinets and vaults in the banks he examines!!

After growing up in Pittsylvania County and graduating from Hargrave Military Academy, John attended the University of Richmond where he earned a degree in Business. He then served a short stint in the US Army at Fort Benjamin Harrison before joining the Bureau. John was a Richmond-based examiner for his first six years with the Bureau. Since 1979 he has been based in Roanoke, primarily supervising the examinations of banks in southwestern Virginia.

FINANCIAL MODERNIZATION (CONTINUED FROM PAGE 1)

states developed their own systems of coordinated, “functional” regulation to supervise these activities.

Under our dual banking system, states have been able to experiment with new products and services without putting the entire system at risk. As new activities proved profitable and useful, they spread to other states, and ultimately became federal law. Likewise, changes in federal law have accelerated change at the state level, and offered new opportunities for state-chartered banks. The most recent example of this dynamic was the move to nationwide branching, which began at the state level, became federal law in the Riegle-Neal Act, and was implemented by the states within three years of that law’s enactment.

Unlike Riegle-Neal, Gramm-Leach-Bliley sets no deadlines for state action. The new law makes changes to the federal laws that govern the activities of national banks and bank holding companies, and respects the authority of states to govern the activities of state-chartered banks.

Since Gramm-Leach-Bliley addresses the activities of national banks and bank holding companies, it does not *require* changes in state banking law. However, it interacts with state law in ways that have major competitive implications for state-chartered banks and presents opportunities for the state system to remain on the cutting edge of modernization.

Virginia already has a law in place designed to maintain state banks’ parity with the powers of national banks (the “wild card” statute, Section 6.1-5.1 of the Code of Virginia). Since Gramm-Leach-Bliley expands the powers of national banks, the powers of state-chartered banks may be expanded accordingly. The State Corporation Commission, through the Bureau, has examined and will continue to closely examine Virginia’s wild card statute to make sure the Commission considers new activities that are “financial in nature or incidental to such financial activity” or “complimentary to a financial activity” so that Virginia state-chartered banks remain on the same level playing field as national banks. It is important to note that this new federal modernization law does not restrict state banks to the activities of national banks. Neither does Virginia law.

Title II of the bill describes the structure for functional regulation. The Federal Reserve will serve as the “umbrella regulator” for financial holding companies; but individual bank, securities, and insurance regulators will continue to be responsible for supervising the holding companies’ affiliates and subsidiaries. The bill authorizes and requires a great deal of coordination and information sharing. Since this Bureau has participated in coordinated regulatory processes with the Federal Reserve Bank of Richmond and the Federal Deposit Insurance Corporation for years, this will not present a problem for this Bureau or require a change in Virginia law, but rather enhances our ability to regulate new institutions under this new law. Additionally, the Bureau will continually review the Commission’s authority to examine holding company affiliates.

With respect to insurance, states have three years to enact uniform licensing and continuing education requirements for insurance agents and companies (Title III). If a majority of the states do not act within this time, the law creates a new self-regulatory organization, the National Association of Registered Agents and Brokers (NARAB) under the auspices of the National Association of Insurance Commissioners (NAIC). If the NAIC does not comply with this new law in administering NARAB, then NARAB may be federalized. Notwithstanding this provision, states remain the primary regulators of insurance activities, and the new law reaffirms state authority under the McCarran-Ferguson Act.

A timeline of Gramm-Leach-Bliley’s effective dates is shown on the following page.

Lastly, Commissioner Face has been asked to represent all state bank commissioners on an FFIEC Inter-agency Supervisory Task Force to coordinate implementation of regulations and examinations under the Gramm-Leach-Bliley Act. The first meeting of the task force is scheduled for late February in Washington D.C.

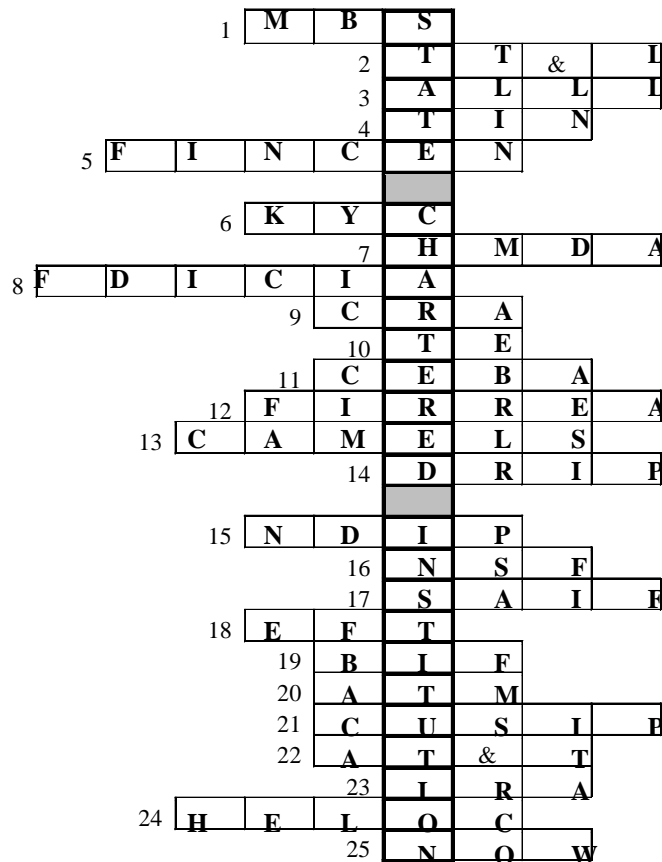
GRAMM-LEACH-BLILEY TIME LINE

President Clinton signed the Gramm-Leach-Bliley Financial Modernization Act into law on November 12, 1999. Except as noted, that is the effective date for most of the law's provisions.

Date	Event
May 4, 1999	Cut-off for commercial applications to establish or acquire unitary thrift holding companies
September 30, 1999	Grandfather date for national bank activities beyond those allowed for financial holding companies
January 1, 2000	Federal banking agencies must write rules in plain language
March 1, 2000	Federal banking agencies must report to Congress on progress of "plain language" initiative
March 15, 2000	Federal Reserve must report to Congress on the default rate, delinquency, and profitability of CRA loans; Treasury must deliver baseline report on CRA's effectiveness in increasing lending in underserved areas
March 11, 2000	Glass-Steagall repealed; affiliations allowed among banks, securities firms, and insurance companies to form financial holding companies
May 12, 2000	Federal regulators must propose regulations on customer privacy; Federal Home Loan Bank membership becomes voluntary for savings associations; GAO studies due on feasibility of requiring on-screen disclosure of all ATM fees, and expanding S Corporation status for small banks
November 2000	Privacy regulations take effect (projected)
November 12, 2000	GAO report due on Federal Reserve's conflicts of interest as regulator of and competitor in the payment system
May 12, 2001	Functional regulation provisions (Title II) take effect
Mid-year 2001	Treasury/Federal Reserve study due on desirability of subordinated debt requirements for "too big to fail" institutions
November 12, 2001	National Association of Insurance Commissioners must have approved bylaws of the National Association of Registered Agents and Brokers (NARAB); 50% of states must have adopted uniform licensing requirements for insurance agents, or licensing authority will default to an independent NARAB. Studies due from the Treasury report on the effectiveness of CRA, and from the federal banking agencies on adapting regulations to online banking
January 1, 2002	Treasury study on information-sharing among financial holding company affiliates due
November 12, 2002	Deadline for states to adopt uniform insurance licensing requirements, or face pre-emption by NARAB
December 31, 2003	Study due from the Treasury and Federal Reserve on the activities of financial holding companies, including grandfathered commercial activities and new activities considered "financial in nature"
2004	Federal Reserve and Treasury may allow operating subsidiaries of national banks to conduct merchant banking activities
December 31, 2004	Grandfather expires for ATMs that cannot comply with onscreen disclosure requirements; Treasury study due on post-financial modernization credit availability to small businesses and farms

SOLUTION TO THE PUZZLE FROM OUR FALL ISSUE

The word puzzle that appeared in the fall issue of the Virginia State Banker was the ingenious work of Principal Financial Examiner Ricky McCormick. Unfortunately Ricky is departing the Bureau after 13 years of examining banks to become the Chief Financial Officer at a federal credit union. He will be sorely missed by the Virginia State Banker since he was one of the leading contributors to each issue. Before he left, we were sure to get the answer key (shown below) to aid anyone who had difficulty completing the puzzle. Thanks Ricky!!



- | | |
|---|--|
| 1 Mortgage loans are often securitized into this type of instrument | 14 Program for reinvesting dividends |
| 2 Deposits accepted on behalf of the US Treasury | 15 Annuities and mutual funds when sold by a financial institution |
| 3 Reserve for bad debts | 16 Reason for returning a check |
| 4 IRS identification number needed before most bank accounts can be opened | 17 Fund that insures the deposits of savings institutions |
| 5 Financial Crimes Enforcement Network | 18 Regulation E |
| 6 Proposed "customer" rules withdrawn early in 1999 | 19 Fund that insures the deposits of commercial banks |
| 7 Requires disclosure of the amount and location of home mortgage activities | 20 Dispenses cash |
| 8 Federal Deposit Corporation Improvement Act of 1991 | 21 Unique security identification number |
| 9 Requires financial institutions to meet the credit needs of their community | 22 North Carolina Credit union involved in field of membership case before Supreme Court |
| 10 Tax-exempt or tax equivalent | 23 "Roth" is a type |
| 11 1987 law that eliminated further creation of nonbank banks | 24 Line of credit secured by home |
| 12 Originally short-named DIRREA | 25 Interest-checking account |
| 13 Uniform Financial Institutions Rating System | |